

## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### Results of Operations

#### *FISCAL 2008 COMPARED TO FISCAL 2007*

##### Net Sales

Fiscal 2008 consolidated net sales were approximately \$2.15 billion, a decrease of \$5.4 million compared to the previous year. The decrease is due to the net effect of lower sales volumes in both segments offset by a favorable mix of product and currency exchange rates in the Engines Segment.

Engines Segment net sales were \$1.46 billion compared to \$1.45 billion in the prior year, an increase of \$12.8 million or 1%. This increase reflects the impact of a favorable mix of shipped products and a favorable currency exchange rate offset by a 4% reduction of engine shipments. The decrease in unit volume was primarily due to the lower demand for engine powered lawn and garden equipment in the U.S.

Power Products Segment net sales were \$870.4 million in fiscal 2008 compared to \$890.0 million in fiscal 2007, a decrease of \$19.6 million or 2%. This decrease was due to a reduction in unit shipments in each product category except shipments of lawn and garden equipment to mass retailers, which reflected product placement that the Company did not have in the prior year. Generally, these sales decreases reflect weak consumer demand for outdoor power equipment.

##### Gross Profit

Consolidated gross profit was \$307.3 million in fiscal 2008 compared to \$295.2 million in fiscal 2007, an increase of \$12.1 million or 4%. In fiscal 2008, the Company recorded a \$13.3 million pretax (\$8.1 million after tax) gain associated with the reduction of certain post closing employee benefit costs related to the closing of the Port Washington, Wisconsin manufacturing facility and a \$19.8 million pretax (\$13.5 million after tax) expense from a snow engine recall. In fiscal 2007, the Company recorded impairment charges of \$43.1 million (\$26.2 million, net of taxes) related to write-downs of assets primarily associated with the announced rationalization of two manufacturing plants and \$5.0 million pretax (\$3.4 million after tax) expense from the snow engine recall. After considering the impact of these items, consolidated gross profit declined \$29.5 million, primarily the result of lower sales volumes and lower utilization of production facilities.

Engines Segment gross profit increased to \$271.0 million in fiscal 2008 from \$216.9 million in fiscal 2007, an increase of \$54.1 million. Engines Segment gross profit margins increased to 18.6% in fiscal 2008 from 15.0% in fiscal 2007. Approximately \$20.4 million of the improvement is due to fiscal 2007 expenses incurred with the write-down of assets associated primarily with the rationalization of a major manufacturing plant in the United States that were not incurred in fiscal 2008, offset by the increased expense of the snow engine recall in fiscal 2008. The balance of the improvement resulted primarily from \$23.1 million of manufacturing cost reductions primarily from the rationalization of the manufacturing plant in the United States. A favorable product mix and favorable currency exchange rates were offset by decreases in unit volume.

The Power Products Segment gross profit decreased to \$39.4 million in fiscal 2008 from \$80.4 million in fiscal 2007, a decrease of \$41.0 million. The Power Products Segment gross profit margins decreased to 4.5% in fiscal 2008 from 9.0% in fiscal 2007. As previously mentioned, a \$13.3 million gain associated with the reduction of certain post closing employee benefit costs related to the closing of the Port Washington, Wisconsin manufacturing facility was recorded in fiscal 2008. In fiscal 2007, asset impairment charges of \$9.2 million were recorded, primarily related to the write-down of assets at this same facility. After considering the impact of these items, gross margins decreased \$63.5 million, primarily the result of \$22.8 million of manufacturing cost increases due to under utilization of production facilities, \$16.5 million of inefficiencies related to the initial year of a plant start-up and \$19.2 million of increased costs for raw materials and components.

##### Engineering, Selling, General and Administrative Costs

Engineering, selling, general and administrative costs increased to \$281.0 million in fiscal 2008 from \$263.0 million in fiscal 2007, an increase of \$17.9 million. Engineering, selling, general and administrative costs as a percent of sales increased to 13.1% in fiscal 2008 from 12.2% in fiscal 2007.

The increase in engineering, selling, general and administrative expenses is due to planned increases in salaries and benefits of \$10.0 million, \$2.2 million of increased engineering costs and increased selling, marketing and advertising expenses of \$1.4 million.

### Interest Expense

Interest expense decreased \$5.6 million in fiscal 2008 compared to fiscal 2007. The decrease is attributable to lower average borrowings between years for working capital requirements and lower average interest rates.

### Other Income

Other income increased \$26.6 million in fiscal 2008 as compared to fiscal 2007. This increase is primarily due to the \$8.6 million gain on the redemption of preferred stock and \$18.3 million of additional dividends received on this stock compared to the prior year.

### Provision for Income Taxes

The effective tax rate was 23.7% for fiscal 2008 and 102.9% for fiscal 2007. The fiscal 2008 effective tax rate is less than the statutory 35% rate primarily due to the Company's ability to exclude from taxable income a portion of the distributions received from investments and the benefit from research credits. In 2007, the combination of similar exclusion, the research credit and production activity deduction with a small pretax financial loss effectively increased the total tax (benefit) by an amount greater than the pretax loss.

## *FISCAL 2007 COMPARED TO FISCAL 2006*

### Net Sales

Fiscal 2007 consolidated net sales were approximately \$2.16 billion, a decrease of \$383 million compared to the previous year. The decrease is primarily due to lower sales volumes in both segments.

Engines Segment net sales were \$1.45 billion compared to \$1.65 billion in the prior year, a decrease of \$201.2 million or 12%. The decrease is primarily the result of a 12% decrease in engine unit shipments between years. The shipment decline is due to a 66% reduction of engine shipments for portable generators caused by a lack of events, such as hurricanes, that cause power outages. The remainder of the decrease is due to lower retail demand for lawn and garden equipment in the U.S. along with a smaller market share in Europe. Unfavorable weather conditions and various economic factors contributed to difficult market conditions for lawn and garden products. Pricing improvements and the impact of favorable Euro exchange rates in fiscal 2007 were almost entirely offset by an unfavorable mix shift to smaller displacement, lower priced engines.

Power Products Segment net sales were \$890.0 million in fiscal 2007 compared to \$1.18 billion in fiscal 2006, a decrease of \$293.5 million or 25%. Approximately \$113.0 million of the decrease was the result of the anticipated reduction of Murray branded lawn and garden product sold to retailers. Excluding Murray branded product, lawn and garden equipment sales were comparable between years. The remainder of the net sales decrease was primarily due to a 58% reduction of portable generator unit shipments because of no landed hurricane activity in fiscal 2007 and lower pre-hurricane season sales. These sales decreases were partially offset by an increase in pressure washer unit shipments compared to the same period in the prior year and the introduction of new air compressor and home standby generator products.

### Gross Profit

Consolidated gross profit was \$295.2 million in fiscal 2007 compared to \$495.3 million in fiscal 2006, a decrease of \$200.1 million or 40%. In fiscal 2007, the Company recorded impairment charges of \$43.1 million (\$26.2 million, net of taxes) related to write-downs of assets primarily associated with the announced rationalization of two manufacturing plants. The remainder of the decrease is the result of lower sales and production volumes in both segments.

Engines Segment gross profit decreased to \$216.9 million in fiscal 2007 from \$388.1 million in fiscal 2006, a decrease of \$171.2 million. Engines Segment gross profit margins decreased to 15.0% in fiscal 2007 from 23.5% in fiscal 2006. Approximately \$33.9 million of the decline is attributable to expense incurred with the write-down of assets primarily associated with the rationalization of a major operating plant in the United States. The balance of the reduction resulted primarily from lower sales and production volumes, and increased costs for raw materials. Lower unit sales negatively impacted fiscal 2007 margins by approximately \$70.0 million. Pricing improvements and the impact of favorable Euro exchange rates in fiscal 2007 were almost entirely offset by an unfavorable mix shift to smaller displacement, lower priced engines. Raw material cost increases primarily related to aluminum, steel, and zinc also negatively impacted margins. Engine production volumes decreased 18.9% in fiscal 2007 compared to fiscal 2006 reducing fixed cost absorption by approximately \$45.0 million. In addition, fiscal 2006 included gains of approximately \$12.2 million associated with certain asset sales that were not recurring in fiscal 2007.

The Power Products Segment gross profit decreased to \$80.4 million in fiscal 2007 from \$110.7 million in fiscal 2006, a decrease of \$30.3 million. The Power Products Segment gross profit margins decreased to 9.0% in fiscal 2007 from 9.4% in fiscal 2006. Asset impairment charges of \$9.2 million primarily related to the write-down of assets associated with a plan to close the Port Washington manufacturing facility by October 2008 accounted for a gross profit margin decline of approximately 1.0%. Portable generator production volume declines of 65% offset by increased production of pressure washers decreased fixed cost absorption by approximately \$13.6 million. These declines were offset by a decrease of \$19 million of 2006 expenses associated with the wind down of operations at the Murray, Inc. operating facility and the write-off of excess inventory related to Murray product.

#### Engineering, Selling, General and Administrative Costs

Engineering, selling, general and administrative costs decreased to \$263.0 million in fiscal 2007 from \$313.2 million in fiscal 2006, a decrease of \$50.2 million. Engineering, selling, general and administrative costs as a percent of sales decreased to 12.2% in fiscal 2007 from 12.3% in fiscal 2006.

The decrease in engineering, selling, general and administrative expenses is due to planned reductions in salaries and benefits of \$14 million, reduced professional services and legal fees of \$21 million and reduced selling, marketing and advertising expenses of \$12 million.

#### Interest Expense

Interest expense increased \$1.6 million in fiscal 2007 compared to fiscal 2006. The increase is attributable to higher average borrowings between years to support higher average working capital requirements.

#### Other Income

Other income decreased \$3.7 million in fiscal 2007 as compared to fiscal 2006. The decrease in other income is due to lower dividends received as well as the Company's portion of lower earnings at its joint venture investments.

#### Provision for Income Taxes

The effective tax rate was 102.9% for fiscal 2007 and 33.1% for fiscal 2006. The fiscal 2007 effective tax rate results primarily from our ability to exclude from taxable income a portion of the distributions received from investments and the benefit from the research credit and the production activities deduction.

### **Liquidity and Capital Resources**

#### *FISCAL YEARS 2008, 2007 AND 2006*

Cash flows from operating activities were \$61 million, \$88 million and \$155 million in fiscal 2008, 2007 and 2006, respectively.

The fiscal 2008 cash flows from operating activities were \$27 million less than the prior year. This decrease is primarily due to lower cash operating earnings that resulted from increased manufacturing costs, offset by \$32 million less of working capital requirements between years.

The fiscal 2007 cash flows from operating activities were \$67 million less than the prior year. The primary reason for the decrease is due to net income being lower by \$99 million in fiscal 2007 compared to fiscal 2006. The decrease in net income was partially offset by non-cash impairment charges of \$43 million in fiscal 2007. In addition, higher fourth quarter sales within our Engines Segment increased working capital requirements for accounts receivable by \$54 million partially offset by higher accounts payable and accrued liabilities.

The fiscal 2006 cash flows from operating activities were \$6 million higher than the prior year. The primary reason for the increase is lower working capital requirements in fiscal 2006. Lower fourth quarter sales in fiscal 2006 resulted in higher inventory levels offset by lower receivables and accrued liabilities including rebates, incentive compensation and income taxes. The reduction in net income between years was more than offset by a series of increased non-cash items in fiscal 2006 including non-cash pension charges, stock compensation expense, gains on fixed asset sales, the deferred tax credit, and the elimination of the extraordinary gain.

Cash provided by investing activities was \$0.7 million in fiscal 2008. Cash used in investing activities was \$67 million and \$55 million in fiscal 2007 and 2006, respectively. These cash flows include capital expenditures of \$66 million, \$68 million and \$70 million in fiscal 2008, 2007 and 2006, respectively. The capital expenditures

relate primarily to reinvestment in equipment, capacity additions and new products. During fiscal 2007, the Company increased its Engines Segment capacity by opening a new plant in Ostrava, Czech Republic which accounted for \$15 million of capital expenditures. This new plant began production in December 2006. In addition, the Power Products Segment added lawn and garden product capacity with a new plant in Newbern, Tennessee that accounted for \$14 million and \$6 million of capital expenditures in fiscal 2008 and 2007, respectively. This plant began production in the second quarter of fiscal 2008.

In fiscal 2008, the Company received \$66 million in proceeds on the sale of an investment in preferred stock including the final dividends paid on this preferred stock.

In fiscal 2006, Briggs & Stratton received \$12 million in cash from the sale of certain operating assets. In addition, Briggs & Stratton received \$6 million as a refund of a portion of the cash paid for certain assets of Murray, Inc. in fiscal 2006.

Briggs & Stratton used cash of \$63 million, \$89 million and \$169 million in financing activities in fiscal 2008, 2007 and 2006, respectively.

The Company paid common stock dividends of \$44 million, \$44 million and \$45 million in fiscal 2008, 2007 and 2006, respectively. In fiscal 2007, Briggs & Stratton repurchased \$48 million of its common shares outstanding as part of a \$120 million share repurchase program authorized by the Board of Directors in fiscal 2007. Briggs & Stratton repurchased \$35 million of its common shares in fiscal 2006.

In fiscal 2006, the Company paid off \$104 million of its long term debt, including \$90 million of its term notes due in fiscal 2008.

The Company received \$1 million, \$4 million and \$12 million in fiscal years 2008, 2007 and 2006, respectively, from the exercise of stock options. The stock option activity is a direct reflection of the market value of the Company's stock and option strike prices that encourage the exercise of the options.

#### Future Liquidity and Capital Resources

On July 12, 2007, the Company entered into a \$500 million amended and restated multicurrency credit agreement. The Amended Credit Agreement ("Revolver") provides a revolving credit facility for up to \$500 million in revolving loans, including up to \$25 million in swing-line loans. The Company used the proceeds of the Revolver to pay off the remaining amounts outstanding under the Company's variable rate term notes issued in February 2005 with various financial institutions, retire the 7.25% senior notes that were due in September 2007 and fund seasonal working capital requirements and other financing needs. At any time during the term of the Revolver, the Company may, so long as no event of default has occurred and is continuing and certain other conditions are satisfied, elect to increase the maximum amount available under the Revolver from \$500 million by up to an amount not to exceed \$250 million through, at the Company's election, increases of commitments by existing lenders and/or the addition of new lenders. The Revolver has a term of five years and all outstanding borrowings on the Revolver will be due and payable on July 12, 2012. As of June 29, 2008, borrowings on the Revolver totaled \$99.1 million.

On August 10, 2006, Briggs & Stratton announced its intent to initiate repurchases of up to \$120 million of its common stock through open market transactions during fiscal 2007 and fiscal 2008. The Company repurchased approximately \$48 million of common stock under this plan, which expired in February 2008.

Briggs & Stratton expects capital expenditures to be approximately \$50 million in fiscal 2009. These anticipated expenditures reflect our plans to continue to reinvest in equipment, new products, and capacity enhancements.

Management believes that available cash, the credit facility, cash generated from future operations and existing lines of credit will be adequate to fund Briggs & Stratton's capital requirements for the foreseeable future.

#### **Financial Strategy**

Management believes that the value of Briggs & Stratton is enhanced if the capital invested in operations yields a cash return that is greater than the cost of capital. Consequently, management's first priority is to reinvest capital into physical assets and products that maintain or grow the global cost leadership and market positions that Briggs & Stratton has achieved, and drive the economic value of the Company. Management's next financial objective is to identify strategic acquisitions or alliances that enhance revenues and provide a superior economic return. Finally, management believes that when capital cannot be invested for returns greater than the cost of capital, we should return capital to the capital providers through dividends and/or share repurchases.

## Off-Balance Sheet Arrangements

Briggs & Stratton has no off-balance sheet arrangements or significant guarantees to third parties not fully recorded in our Balance Sheets or fully disclosed in our Notes to Consolidated Financial Statements. Briggs & Stratton's significant contractual obligations include our debt agreements and certain employee benefit plans.

Briggs & Stratton is subject to financial and operating restrictions in addition to certain financial covenants under its domestic debt agreements. As is fully disclosed in Note 8 of the Notes to Consolidated Financial Statements, these restrictions could limit our ability to: pay dividends; incur further indebtedness; create liens; enter into sale and/or leaseback transactions; consolidate, sell or lease all or substantially all of our assets; and dispose of assets or the proceeds of our assets. We believe we will remain in compliance with these covenants in fiscal 2009. Briggs & Stratton has obligations concerning certain employee benefits including its pension plans, postretirement benefit obligations and deferred compensation arrangements. All of these obligations are recorded on our Balance Sheets and disclosed more fully in the Notes to Consolidated Financial Statements.

## Contractual Obligations

A summary of the Company's expected payments for significant contractual obligations as of June 29, 2008 is as follows (in thousands):

	Total	2009	2010-2011	2012-2013	Thereafter
Long-Term Debt . . . . .	\$ 367,077	\$ -	\$ 268,000	\$ 99,077	\$ -
Interest on Long-Term Debt . . . . .	83,640	28,541	50,145	4,954	-
Capital Leases . . . . .	2,077	524	992	561	-
Operating Leases . . . . .	59,303	14,981	23,570	12,766	7,986
	<u>\$ 512,097</u>	<u>\$ 44,046</u>	<u>\$ 342,707</u>	<u>\$ 117,358</u>	<u>\$ 7,986</u>

## Other Matters

### Labor Agreement

Briggs & Stratton has collective bargaining agreements with its unions. These agreements expire at various times ranging from 2008-2013.

### Emissions

The U.S. Environmental Protection Agency (EPA) has developed national emission standards under a two-phase process for small air cooled engines. Briggs & Stratton currently has a complete product offering that complies with the EPA's Phase II engine emission standards.

The EPA issued proposed Phase III standards to further reduce engine exhaust emissions and to control evaporative emissions from small off-road engines and equipment they are used in. The proposed standards are similar to those adopted by the California Air Resources Board (CARB). The proposed Phase III program would require some evaporative controls in 2009 and go into full effect in 2011 for Class II engines (225 cubic centimeter displacement and larger) and 2012 for Class I engines (less than 225 cubic centimeter displacement). Briggs & Stratton does not believe compliance with the new standards will have a material adverse effect on its financial position or results of operations.

CARB's Tier 3 regulation requires additional reductions to engine exhaust emissions and new controls on evaporative emissions from small engines. The Tier 3 regulation was fully phased in during fiscal year 2008. While Briggs & Stratton believes the cost of the regulation may increase engine costs per unit, Briggs & Stratton does not believe the regulation will have a material effect on its financial condition or results of operations. This assessment is based on a number of factors, including revisions the CARB made to its adopted regulation from the proposal published in September 2003 in response to recommendations from Briggs & Stratton and others in the regulated category and intention to pass increased costs associated with the regulation on to consumers.

The European Commission adopted an engine emission Directive regulating exhaust emissions from small air cooled engines. The Directive parallels the Phase 1 and 2 regulations adopted by the U.S. EPA. Stage 1 was effective in February 2004 and Stage 2 phases in between calendar years 2005 and 2007, with some limited extensions available for specific size and type engines until 2010. Briggs & Stratton has a full product line compliant with Stage 2. Briggs & Stratton does not believe compliance with the Directive will have a material adverse effect on its financial position or results of operations.

## Critical Accounting Policies

Briggs & Stratton's critical accounting policies are more fully described in Note 2 and Note 14 of the Notes to Consolidated Financial Statements. As discussed in Note 2, the preparation of financial statements in conformity with accounting principles generally accepted in the U.S. ("GAAP") requires management to make estimates and assumptions about future events that affect the amounts reported in the financial statements and accompanying notes. Future events and their effects cannot be determined with absolute certainty. Therefore, the determination of estimates requires the exercise of judgment. Actual results inevitably will differ from those estimates, and such differences may be material to the financial statements.

The most significant accounting estimates inherent in the preparation of our financial statements include a goodwill assessment, estimates as to the recovery of accounts receivable and inventory reserves, and estimates used in the determination of liabilities related to customer rebates, pension obligations, postretirement benefits, warranty, product liability, litigation and taxation.

The carrying amount of goodwill is tested annually and whenever events or circumstances indicate that impairment may have occurred. Impairment testing is performed in accordance with Statement of Financial Accounting Standard (SFAS) No. 142, "Goodwill and Other Intangible Assets." The Company performs impairment reviews for its reporting units, which have been determined to be one level below the Company's reportable segments, using a fair value method. The reporting units are Engine Power Products, Home Power Products and Yard Power Products. The fair value represents the amount at which a reporting unit could be bought or sold in a current transaction between willing parties on an arms-length basis. To estimate fair value, the Company periodically retains independent third party valuation experts. Fair value is estimated using a valuation methodology that incorporates three approaches in estimating fair value including the public guideline company method, the guideline transaction method and the discounted cash flow method. The determination of fair value requires significant management judgment including estimating future sales volumes, selling prices and costs, changes in working capital, investments in property and equipment and the selection of an appropriate discount rate. The estimated fair value is then compared with the carrying value of the reporting unit, including the recorded goodwill. The Company is subject to financial statement risk to the extent that the carrying amount exceeds the estimated fair value. The impairment testing performed by the Company at June 29, 2008 indicated that the estimated fair value of each reporting unit exceeded its corresponding carrying amount, including recorded goodwill and as such, no impairment existed. Other intangible assets with definite lives continue to be amortized over their estimated useful lives and are subject to impairment testing if events or changes in circumstances indicate that an asset may be impaired. Indefinite lived intangible assets are also subject to impairment testing on at least an annual basis. At June 29, 2008 there was no impairment of intangible assets.

The reserves for customer rebates, warranty, product liability, inventory and doubtful accounts are fact specific and take into account such factors as specific customer situations, historical experience, and current and expected economic conditions.

The Company's estimate of income taxes payable, deferred income taxes, and the effective tax rate is based on a complex analysis of many factors including interpretations of federal, state and foreign income tax laws, the difference between tax and financial reporting bases of assets and liabilities, estimates of amounts currently due or owed in various jurisdictions, and current accounting standards. We review and update our estimates on a quarterly basis as facts and circumstances change and actual results are known. In addition, Federal, state and foreign taxing authorities periodically review the Company's estimates and interpretation of income tax laws. Adjustments to the effective income tax rate and recorded tax related assets and liabilities may occur in future periods if actual results differ significantly from original estimates and interpretations.

The pension benefit obligation and related pension expense or income are calculated in accordance with SFAS No. 158, "Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statements No. 87, 88, 106 and 132 (R)", and are impacted by certain actuarial assumptions, including the discount rate and the expected rate of return on plan assets. These rates are evaluated on an annual basis considering such factors as market interest rates and historical asset performance. Actuarial valuations at June 29, 2008 used a discount rate of 7.0% and an expected rate of return on plan assets of 8.75%. Our discount rate was selected using a methodology that matches plan cash flows with a selection of Moody's Aa or higher rated bonds, resulting in a discount rate that better matches a bond yield curve with comparable cash flows. A 0.25% decrease in the discount rate would decrease annual pension expense by approximately \$0.5 million. A 0.25% decrease in the expected return on plan assets would increase our annual pension expense by approximately \$2.3 million. In estimating the expected return on plan assets, the Company considers the historical returns on

plan assets, adjusted for forward looking considerations, including inflation assumptions and active management of the plan's invested assets. Changes in the discount rate and return on assets can have a significant effect on the funded status of our pension plans, stockholders' equity and expense. We cannot predict these changes in discount rates or investment returns and, therefore, cannot reasonably estimate whether the impact in subsequent years will be significant.

The funded status of the Company's pension plan is the difference between the projected benefit obligation and the fair value of its plan assets. The projected benefit obligation is the actuarial present value of all benefits expected to be earned by the employees' service adjusted for future potential wage increases. At June 29, 2008 the fair value of plan assets exceeded the projected benefit obligation by approximately \$52 million.

The other postretirement benefits obligation and related expense or income are also calculated in accordance with SFAS No. 158, "Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106 and 132 (R)" and are impacted by certain actuarial assumptions, including the health care trend rate. An increase of one percentage point in health care costs would increase the accumulated postretirement benefit obligation by \$10.0 million and would increase the service and interest cost by \$0.8 million. A corresponding decrease of one percentage point, would decrease the accumulated postretirement benefit by \$9.2 million and decrease the service and interest cost by \$0.7 million.

For pension and postretirement benefits, actuarial gains and losses are accounted for in accordance with GAAP. Refer to Note 14 of the Notes to the Consolidated Financial Statements for additional discussion.

#### New Accounting Pronouncements

In March 2008, the Financial Accounting Standards Board ("FASB") issued Statement No. 161, "Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133" ("SFAS 161"). SFAS 161 is intended to help investors better understand how derivative instruments and hedging activities affect an entity's financial position, financial performance and cash flows through enhanced disclosure requirements. SFAS 161 is effective for fiscal years and interim periods beginning after November 15, 2008. At this time, the impact of adoption of SFAS 161 on our consolidated financial position is being assessed.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51," (SFAS 160). SFAS 160 amends ARB 51 to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. SFAS 160 is effective for fiscal years beginning on or after December 15, 2008. At this time, the impact of adoption of SFAS 160 on our consolidated financial position is being assessed.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), "Business Combinations" (SFAS No. 141R). SFAS No. 141R will significantly change the accounting for business combinations in a number of areas including the treatment of contingent consideration, contingencies, acquisition costs, in-process research and development, and restructuring costs. In addition, under SFAS No. 141R, changes in deferred tax asset valuation allowances and acquired income tax uncertainties in a business combination after the measurement period will impact income taxes. SFAS No. 141R is effective for fiscal years beginning after December 15, 2008, and will impact the accounting for any business combinations entered into after the effective date.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities – Including an Amendment of FASB Statement No. 115," (SFAS 159). This standard permits an entity to choose to measure many financial instruments and certain other items at fair value. The fair value option permits a company to choose to measure eligible items at fair value at specified election dates. A company will report unrealized gains and losses on items for which the fair value option has been elected in earnings after adoption. Statement 159 is effective for fiscal years beginning after November 15, 2007. At this time, the impact of adoption of SFAS 159 on our consolidated financial position is being assessed.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements," (SFAS 157), which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007. In February 2008, the FASB issued a final Staff Position to allow a one-year deferral adoption of SFAS 157 for non-financial assets and non-financial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis. The FASB also decided to amend SFAS 157 to exclude FASB Statement No. 13 and its related interpretive

accounting pronouncements that address leasing transactions. At this time, the impact of adoption of SFAS 157 on our consolidated financial position is being assessed.

In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106, and 132(R)," (SFAS 158). SFAS 158 requires recognition of the overfunded or underfunded status of a postretirement benefit plan in the statement of financial position, as well as recognition of changes in that funded status through comprehensive income in the year in which they occur. SFAS 158 also requires a change in the measurement of a plan's assets and benefit obligations as of the end date of the employer's fiscal year. SFAS 158 is effective for fiscal years ending after December 15, 2006, except for the measurement date provisions, which are effective for fiscal years ending after December 15, 2008. Briggs & Stratton adopted SFAS 158 on July 1, 2007. See Note 14 – Employee Benefit Costs in the Notes to Consolidated Financial Statements for further discussion regarding the Company's pension and other postretirement benefit plans.

In June 2006, the FASB issued FASB Interpretation No. 48 Accounting for Uncertainty in Income Taxes (FIN 48) an interpretation of FASB Statement No. 109 (SFAS 109). This interpretation clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements in accordance with SFAS 109. FIN 48 details how companies should recognize, measure, present and disclose uncertain tax positions that have been or expect to be taken. As such, the financial statements reflect expected future tax consequences of uncertain tax positions presuming the taxing authorities' full knowledge of the position and all relevant facts. FIN 48 is effective for public companies for annual periods that begin after December 15, 2006. See Note 5 – Income Taxes in the Notes to Consolidated Financial Statements for further discussion regarding the Company's adoption of FIN 48 in its 2008 fiscal year.

## ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Briggs & Stratton is exposed to market risk from changes in foreign exchange and interest rates. To reduce the risk from changes in foreign exchange rates, Briggs & Stratton uses financial instruments. Briggs & Stratton does not hold or issue financial instruments for trading purposes.

### Foreign Currency

Briggs & Stratton's earnings are affected by fluctuations in the value of the U.S. dollar against various currencies, with the Japanese Yen and the Euro as the most significant. The Yen is used to purchase engines from Briggs & Stratton's joint venture. Briggs & Stratton purchases components in Euros from third parties and receives Euros for certain products sold to European customers. Briggs & Stratton's foreign subsidiaries' earnings are also influenced by fluctuations of the local currency against the U.S. dollar as these subsidiaries purchase inventory from the parent in U.S. dollars. Forward foreign exchange contracts are used to partially hedge against the earnings effects of such fluctuations. At June 29, 2008, Briggs & Stratton had the following forward foreign exchange contracts outstanding with the Fair Value (Gains) Losses shown (in thousands):

<u>Hedge Currency</u>	<u>Notional Value</u>	<u>Fair Market Value</u>	<u>Conversion Currency</u>	<u>(Gain) Loss at Fair Value</u>
Japanese Yen	1,200,000	\$ 11,405	U.S.	\$ (85)
Australian Dollars	5,480	\$ 5,196	U.S.	\$ 270

All of the above contracts expire within twelve months.

Fluctuations in currency exchange rates may also impact the shareholders' investment in Briggs & Stratton. Amounts invested in Briggs & Stratton's non-U.S. subsidiaries and joint ventures are translated into U.S. dollars at the exchange rates in effect at fiscal year-end. The resulting cumulative translation adjustments are recorded in Shareholders' Investment as Accumulated Other Comprehensive Income. The cumulative translation adjustments component of Shareholders' Investment increased \$10.8 million during the year. Using the year-end exchange rates, the total amount invested in non-U.S. subsidiaries on June 29, 2008 was approximately \$98.8 million.

### Interest Rates

Briggs & Stratton is exposed to interest rate fluctuations on its borrowings, depending on general economic conditions.

On June 29, 2008, Briggs & Stratton had the following short-term loans outstanding (in thousands):

<u>Currency</u>	<u>Amount</u>	<u>Weighted Average Interest Rate</u>
U.S. Dollars	\$ 3,000	5.11%

This loan has a variable interest rate. Assuming borrowings are outstanding for an entire year, an increase (decrease) of one percentage point in the weighted average interest rate, would increase (decrease) interest expense by \$30 thousand.

Long-term loans, net of unamortized discount, consisted of the following (in thousands):

<u>Description</u>	<u>Amount</u>	<u>Maturity</u>
8.875% Senior Notes	\$ 266,478	2011
Revolving Credit Facility	\$ 99,077	2012

The Senior Notes carry fixed rates of interest and are therefore not subject to market fluctuation. The Revolving Credit Facility has a variable interest rate. Assuming borrowings are outstanding for an entire year, an increase (decrease) of one percentage point in the weighted average interest rate, would increase (decrease) interest expense by approximately \$1.0 million.